

**Westfair
Foods
Ltd.**

**Annual
Report
1974**

AR41

Westfair

Westfair Foods is a major wholesale and retail food distributor operating in Alberta, Saskatchewan, Manitoba and Western Ontario.

Report to Shareholders



Record sales of \$306,926,000 were achieved in 1974 — an increase of \$28,110,000 or 10.1%. Net income from operations increased 5.3% to \$4,118,000. A gain of \$3,750,000 from the sale of the Company's British Columbia operations brought the net income for the year to \$7,868,000. The increase in sales, due in part to the rapidly rising costs of food products, was reflected in all divisions of the Company. Working capital was maintained at the very satisfactory level of \$18,443,000.

Two major changes were made in the operations of the Company with effect from the beginning of the year. The Company acquired from George Weston Limited all of the shares of The OK Economy Stores Limited and all of the business and undertakings of the OK Economy Stores division, operating principally in Saskatchewan and in Manitoba. The Company's operations in British Columbia comprised of the Malkins wholesale facilities and the Shop Easy, Mini Mart and Econo-Mart stores, were sold to Kelly, Douglas & Company, Limited, an affiliated company, which has extensive wholesale and retail distribution operations in that province. The market territory of the Company is now more concentrated and extends from Alberta to the lakehead.

During the year an extensive program to revitalize the Loblaw stores acquired in 1973 was completed. The major supermarkets in the provinces of Alberta and Manitoba were modernized, a number of older and smaller stores closed, and a major new market in Calgary was opened. While activity in corporate owned retail stores has increased as a result of the aforementioned acquisitions, servicing independent stores continues to be a major function of the Company. Selective development of this segment of the market continues.

Subsequent to the year end, control of the Company passed to Kelly, Douglas & Company, Limited by means of an exchange of shares of Kelly, Douglas for all of the common shares of the Company, based upon values determined by independent appraisal.

The support of our customers and the cooperation and loyalty of our employees is recognized as being vitally important in achieving the results reported and is greatly appreciated.

E. R. O'Neill
President

Five Year Review

(in thousands of dollars)

	1974	1973	1972	1971	1970
Sales	\$306,926	\$278,810	\$257,555	\$246,312	\$252,077
Net Income	7,868*	3,911	3,402	3,211	3,040
Depreciation	1,961	1,482	1,809	1,509	1,563
Working capital	18,443	18,700	20,569	18,425	15,785
Shareholders' equity	43,421	36,968	39,472	37,485	35,689
Total Assets	\$60,800	\$59,377	\$53,945	\$53,005	\$51,157

*after extraordinary income item of \$3,750

Consolidated Statement of Income

Westfair Foods Ltd.
Year ended December 28, 1974
and December 29, 1973
(in thousands of dollars)

	1974	1973
Sales and other income		
Sales	\$306,926	\$278,810
Investment income (note 2)	582	395
Gain on sale of fixed assets	906	271
	308,414	279,476
Costs and expenses		
Cost of sales, selling and administrative expenses before the following items	298,530	269,959
Depreciation	1,961	1,482
Interest on long-term debt	116	150
	300,607	271,591
Income from operations before income taxes and extraordinary item	7,807	7,885
Income taxes	3,689	3,974
Income from operations before extraordinary item	4,118	3,911
Extraordinary item (note 7)	3,750	
Net income for the year	\$ 7,868	\$ 3,911
Per common share		
Income from operations before extraordinary item	\$ 44.99	\$ 42.61
Net income for the year	\$ 88.26	\$ 42.61

Consolidated Balance Sheet

Westfair Foods Ltd.
(incorporated under the laws of Canada)
as at December 28, 1974 and December 29, 1973
(in thousands of dollars)

Assets	1974	1973
Current assets		
Cash and deposit receipt	\$ 4,435	\$ 3,350
Accounts receivable	4,739	6,801
Inventories, at lower of cost and net realizable value	22,995	27,466
Prepaid expenses	59	168
	32,228	37,785
Investments and other assets		
Secured loans and advances, not due within one year	1,248	1,046
Other investments, at cost (without quoted market value) (note 2)	3,905	223
Deferred account recoverable	857	1,071
Excess of cost of assets over fair value of net assets acquired (note 1c)	1,080	
	7,090	2,340
Fixed assets, at cost		
Land and buildings	22,370	20,337
Equipment	14,629	15,297
	36,999	35,634
Less accumulated depreciation	15,517	16,382
	21,482	19,252
	\$60,800	\$59,377

On behalf of the Board

W. Galen Weston, Director

E. R. O'Neill, Director

Liabilities	1974	1973
Current liabilities		
Accounts payable and accrued liabilities	\$11,376	\$13,157
Accounts payable, affiliated companies	242	2,836
Income and other taxes payable	1,593	2,589
Dividends payable (note 3)	370	370
Long-term debt payable within one year (note 4)	204	133
	13,785	19,085
Long-term debt (note 4)	1,234	1,430
Deferred real estate income	207	18
Deferred income taxes	2,153	1,876
Shareholders' Equity		
Capital stock (note 5)		
Authorized		
175,000 Preferred shares, par value \$20 each		
150,000 Class A shares without par value		
150,000 Common shares without par value		
Issued		
59,715 Preferred shares (\$1.40 series)	1,194	1,194
67,772 Class A shares }	1,023	1,023
86,658 Common shares }		
Retained earnings	41,204	34,751
	43,421	36,968
	\$60,800	\$59,377

Consolidated Statement of Retained Earnings

Westfair Foods Ltd.
Year ended December 28, 1974
and December 29, 1973
(in thousands of dollars).

	1974	1973
Retained earnings at beginning of year	\$ 34,751	\$ 37,255
Net income for the year	7,868	3,911
	42,619	41,166
Deduct		
Dividends declared		
Preferred shares	84	84
Class A shares	135	135
Common shares	1,196	6,196
	1,415	6,415
Retained earnings at end of year	\$ 41,204	\$ 34,751

Consolidated Statement of Changes in Financial Position

Westfair Foods Ltd.
Year ended December 28, 1974
and December 29, 1973
(in thousands of dollars)

	1974	1973
Working capital derived from		
Income from operations before extraordinary item	\$ 4,118	\$ 3,911
Items not involving current funds		
Depreciation	1,961	1,482
Amortization of excess of cost of assets over fair value of net assets acquired	120	
Deferred income taxes	(97)	(74)
Deferred account recoverable	214	(142)
Deferred real estate income	(50)	(33)
Gain on disposal of fixed assets	(906)	(271)
	5,360	4,873
Proceeds from disposal of fixed assets	2,544	2,283
Proceeds from disposal of non-current assets of British Columbia Division (note 7)	1,940	
Reduction in other assets		302
	9,844	7,458
Working capital applied to		
Reduction in long-term debt	196	334
Dividends	1,415	6,415
Purchase of fixed assets	2,323	2,578
Acquisition of subsidiary company and O.K. Economy Division (note 1b)	4,586	
Increase in other assets	381	
Excess of cost over fair value of net assets acquired (note 1b)	1,200	
	10,101	9,327
Decrease in working capital	257	1,869
Working capital at beginning of year	18,700	20,569
Working capital at end of year	\$18,443	\$18,700

Notes to Consolidated Financial Statements

Westfair Foods Ltd.
December 28, 1974

1. Summary of significant accounting policies

(a) Principles of consolidation

- (i) The consolidated financial statements include the accounts of the company and of all subsidiaries.
- (ii) All material inter-company transactions have been eliminated.

(b) Acquisitions

At the beginning of its fiscal year the company acquired all of the shares of The O.K. Economy Stores Limited and all of the business and undertakings of the O.K. Economy Stores Division of George Weston Limited. The acquisition equation based on audited financial statements is set out below

Assets acquired	
Net current assets	\$2,299,000
Fixed assets	5,049,000
Investments	150,000
	<u>7,498,000</u>
Liabilities assumed	
Deferred real estate income	239,000
Deferred income taxes	375,000
	<u>614,000</u>
Net assets acquired	6,884,000
Excess of cost of assets over fair value of net assets acquired	<u>1,200,000</u>
Cash paid	<u>\$8,084,000</u>

(c) Amortization of excess of cost of assets over fair value of net assets acquired

The company's policy is to amortize the excess of cost of assets over the fair value of net assets acquired over a period of ten years.

The amortization charge for 1974 is \$120,000. (Nil for 1973)

(d) Inventories

Retail store inventories are stated at the lower of cost and net realizable value less normal profit margin. All other inventories are stated at the lower of cost and net realizable value.

(e) Fixed assets

Land is stated and not more than cost; buildings, fixtures and equipment are stated at historical cost and leasehold improvements are stated at historical cost less accumulated amortization.

Buildings, fixtures and equipment are depreciated by the company and its subsidiaries at various rates which will amortize the cost of these assets over their estimated useful

1. Summary of significant accounting policies (cont'd)

lives. Leasehold improvements are amortized over their estimated useful lives or the terms of the leases, whichever is less.

When fixed assets are sold or scrapped, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss on disposal is included in income.

(f) Deferred real estate income

The profits realized on the sale and leaseback of property have been deferred and are being amortized at various rates according to the remaining term of the respective leases.

2. Sundry investments and investment income

Sundry investments include \$3,750,000 in shares of an affiliated company, acquired on the sale of the British Columbia Divisions referred to in note (7).

Income from investments includes \$302,000 from affiliated companies.

3. Dividends payable

Dividends payable of \$370,000 includes \$301,000 payable to an affiliated company.

4. Long-term debt

Westfair Properties Ltd.

First Mortgage Bonds

Series A—5¾ % Sinking fund debenture due December 15, 1986, par value of \$1,116,000,	
less bonds on hand of \$6,000	\$1,110,000
Less discount	<u>201,000</u>
	909,000

Westfair Wholesale Properties Ltd.

9% First mortgage maturing in 1980	<u>529,000</u>
	1,438,000
Less payable in one year	<u>204,000</u>
	<u>\$1,234,000</u>

Principal instalments of long-term debt payable each year for the next five years are

1975	\$204,000	1978	\$233,000
1976	223,000	1979	93,000
1977	235,000		

Auditors' Report

5. Capital stock

The holders of the preferred shares (\$1.40 series) are entitled to a dividend when and as declared, of \$1.40 per share per annum on a cumulative non-participating basis. These shares are non-redeemable, but may be purchased by the company for cancellation. The holders of the Class A shares are entitled to dividends, when and as declared, of \$2.00 per share per annum on a non-cumulative, non-participating basis. No dividend shall be paid or declared for payment on common shares in any fiscal period unless and until dividends at the rate of \$2.00 per share for such year have been paid or declared on the Class A shares.

6. Long-term leases

The aggregate minimum rentals under long-term leases (extending beyond five years from the balance sheet date) are as follows

1975-1979	\$ 8,466,000
1980-1984	6,509,000
1985-1989	3,662,000
1990-1994	1,303,000
After 1995	696,000
	<hr/>
	\$20,636,000

7. Extraordinary item

The company disposed of the assets and undertaking of its British Columbia Divisions: Malkins, Shop Easy (B.C.), Mini Mart (B.C.) and Econo-Mart (B.C.) to an affiliated company and realized a gain of \$3,750,000.

8. Directors' and Officers' remuneration

Remuneration of directors, as directors	\$ 1,000
Remuneration of officers, as officers	\$ 233,000
Number of directors	6
Number of officers	6
Number of officers who are directors	1

9. Comparative Figures

The 1973 comparative figures are based upon Financial Statements which were reported upon by other Chartered Accountants.

To the Shareholders of
Westfair Foods Ltd.

We have examined the consolidated balance sheet of Westfair Foods Ltd. as at December 28, 1974 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 28, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Gunn & Co.

Chartered Accountants

Winnipeg, Canada
January 23, 1975

Directors

W. Galen Weston
David A. Nichol
Richard J. Currie
G. Richard Hunter, Q.C.
Raymond J. Addington
E. Raymond O'Neill

Officers

E. Raymond O'Neill
President
Keith W. Campbell, C.A.
Vice-President, Finance
Mervyn D. Booty
Vice-President, Marketing and Sales
A. Colin Stewart
Vice-President, Corporate Retail
Thomas E. Anderson
Assistant Controller
David G. King, C.A.
Assistant Secretary

Transfer Agent
The Royal Trust Company

Auditors
Thorne Riddell & Co.

Solicitors
Pitblado & Hoskin

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Toronto, Montreal and Winnipeg
Stock Exchanges

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